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Research Article **Open Access**

ROLE OF SMALL ENTERPRISES IN ECONOMIC DEVELOPMENT

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Abstract

The objective of this research paper is to analyze the role of small entrepreneurs in economic development of Pakistan. For this purpose, we collected time series data for the period from 1972 to 2018. The GDP growth rate was taken as dependent variable while population growth rate, gross fixed capital formation, interest rate and trade openness were taken as independent variables. Statistical techniques such as ADF test, Correlation analysis ARDL and ECM models, were applied to determine long-run and short-run relationships between variables. Our empirical results show that all independent variables: population growth rate, gross capital formation, and trade openness are positively related with small enterprises in the long run except interest rate. Our study suggests to encourage small enterprises to play their effective role in promotion of entrepreneurship, job creation, innovations and economic development.

Key words: Small entrepreneur; Trade openness; Interest rate; Population growth rate.
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1.Introduction

1.1 Back ground of study

An entrepreneur sets up its business with fully organized manner keeping in view the future endeavors although its resources are also scarce. An entrepreneur prefers to set up a new creation of business activities rather than adopting a traditional trend of business already prevailed in the market. These kind of efforts aim to achieve high profits, bearing high risk factor involved in business (Osman, Rashid, Ahmad, & Rajput, 2011). It is established that fundamental characteristics of every entrepreneur are the ability to manage resources, aptitude, self-reliance and embracing the wave of change. Creativeness and ingenious values are the foremost and essential values for every entrepreneur because they are the actual means of flourishing business. Entrepreneurship plays a significant part in the economy of a country and a nation's social progress and prosperity (Dhaliwal, 2016). Poverty and unemployment can be compact with the development of commerce and trade disclosed that owing to extensive role of small and medium enterprise (SMEs) in economies, almost, all developed and developing countries are focusing to enlarge this sector for achieving sustainable development (Gerba & Viswanadham, 2016). Rohra and Panhwar (2009) argue that many high-income countries acquire this status of economy by using SME sector to boost their economies. Small entrepreneurship becomes important because an entrepreneur performs as a trigger head to sparkle the economic operations by taking entrepreneurial decisions. With the introduction of pioneering expertise in the market, economic growth is multiplied. An entrepreneurship leads in the formation of SMEs and business ventures. SME leads not only to the expansion of economy and its growth but also creates employment for

unemployed. Rohra and Panhwar (2009) stated that many advanced countries encourage small enterprises to play their effective role through fiscal incentives. Small and medium-sized enterprises (SMEs) now account for 78% of industrial employment in Pakistan, 30% of GDP, and 25% of exports, demonstrating their importance in the country's economic development. Small-scale industry growth is directly proportionate to the country's overall economic growth. Almost 78% of labuor force of the non-agriculture is employed in the private sector at the small level to contribute in 25% of final good exports and 35% of value added exported. According to estimates, Pakistan's small businesses account for 40% of GDP and 60% of exports (Pakistan today (2018). Despite substantial constructive role in country's economy it is very unfortunate that Pakistan has no proper data of small scale firms. Entrepreneurship is limited to a very small number of business families working with their traditional values and manners. Due to unequal distribution of wealth and mismanagement of human resources in developing economies have to go a long way to make it fully developed. According to economic survey of Pakistan 2017, Pakistan has 90% businesses as SMEs. Small businesses are too much necessary for the development of a country. Only 40% of enterprises have facility of communication software for their business operation, facility of communication software is a clear sign that Pakistani SMEs are facing lack of IT knowledge. According to census of Pakistan (2005), almost 3.2 million businesses were operating, in which 90% are SMEs and there are 78% non-agriculture workers in Pakistan. In SMEs Report, 2011 was 30% contributing in GDP of Pakistan and 35% in manufacturing value added of Pakistan. Pakistani government neglected SMEs in 1990s and focused corporate industries, at this time not only government but also

financial institutes and banks focused to large scale manufacturing industries for providing finance instead of SME's. Majority of SME's are depending on personal finance, credit from supplier or loan from friends. Studies comparing the economies of emerging and developed countries show that 90% of entrepreneurs in developed countries are "SMEs," which are critical to the country's financial progress. SME's can play an important role in the global financial system by levying tariffs on their domestic products and exporting them to other countries.

1.2 Objective of Study

The objectives of this study are stated as under: -

- To examine the role of SME's in Pakistan's economic development.
- To estimate contribution of SMEs in Capital accumulation and GDP of Pakistan.
- To investigate the effect of Trade openness on entrepreneur's business and economic growth of Pakistan.
- To study the problems faced by small entrepreneurs in Pakistan.
- To explain why SMEs are important for fast economic development.

1.3 Significance of Study

This study emphasizes on the significance of market research to small business owners to assess feasibility of a venture and the information about customer groups, competitors, general business environment, state policies and current economic conditions of the state. This study can also be helpful for the new entrepreneurs that how they can produce innovative goods using creative and skilful efforts and how the use of technology works as an activator to spark the economic operations. It also reveals that macro and micro

elements like government financial policies and the business environment, innovation, and opportunity have close link and affect each other.

2. Literature review

Hassan et al,(2018) explored the role of open innovation and technological innovation in survival of SMEs in Pakistan. Recently SMEs are playing a vital role in establishment an economy's position in global market Researcher of Study used a self-made questionnaire for collecting data, result of data analysis explained that the impact of online marketing through social networking is will be a powerful tool for the SMEs, by use of this tool SMEs can gain ability for reaching to customers. Additionally, open innovation is an efficient instrument for SMEs success. Raza et al,(2018) discussed the issues, dissection and directions of SMEs. Role of both SMEs are necessary in economic growth not only in developing countries but also in developed countries. SMEs are helpful in shaping employment structure, generating job opportunities and social development of a country. Like other developing countries SMEs are backbone of Pakistan's economy. According to an estimate SMEs are contributing 40% in GDP of Pakistan, 30% of Pakistan's export and 80% in employment of Pakistan. A dynamic and flexible system of SMEs is playing a significant role in reduction of unemployment level, increase in foreign exchange earnings and improving management skills of business. SMEs in developing countries are suffering with weak performance and high rate of failures. Study further explained that if SMEs failure rate is higher in developing nations than develop nations carried a "Paradigm shift" in direction and environment of businesses. Study concluded that a firm can use PEST (political, Economic, Social and technological) analysis for observing all the external elements which may impact a business. Mahmood,

Kouser, & Iqbal,(2017) investigated that why Pakistani SMES are not reporting a sustainable practice, the aim of study is developing an understanding about sustainability of SMEs all over the world. In total 190 sustainability reports in all over the world there is no single report is published by Pakistani SMEs. The researchers concluded that lack of awareness and knowledge are major causes of non-sustainability in SMEs. Less develop countries have lack of regulations, training and skills for their employees, lack of infrastructure and SMEs has less support of government. Study further explained that SMEs are less interested in sustainability. Hassan & Ahmad, (2016) investigated the role of SMEs (micro) enterprises in creation of employment and income opportunities in Timergara, Dir KPK Pakistan. The writer used primary data and collected data from selected 80 micro enterprises and found that there is positive association among performance of micro enterprises and creation of employment and income opportunities. Mustaghis-ur-Rahman & Jalees, (2015) investigated the effective supportive policies for SMEs of Karachi Pakistan. Study described that Pakistan's economy depend upon the SMEs, less develop countries has strong awareness about the importance of SMEs for their economic growth. It's a thought that SMEs support system in Pakistan is insufficient, supportive system effectiveness can be measure by the entrepreneur satisfaction. Hussain, Farooq, & Akhtar, (2012) examined the recent development of SMEs, and the efficiency of private-public partnership in Pakistan. SMEs are necessary for the economic survival of any nation more specifically in developing nations. Countries in international markets are facing a competitive environment, in this situation SMEs are playing an important role in development. SMEs are considering growth's engine.Qureshi & Herani, (2011) investigated the role of SMEs in

stability of socio-economic factors in Karachi Pakistan. The aim of study was to recognize major constraints in financing process of SMEs which can slow-down the growth of SMEs in Karachi. Study explained that majority of SMEs are facing constraints in the procedure of financing not only in Karachi but also all over Pakistan. Syed,(2010) explained that Pakistan has more than 167 million population and there is an increase in Middle class in Pakistan, Pakistan is the 6th largest country with respect to population and gender equality. Women contribution in economic activities is less than other countries of world, businesses usually owned by women are small with maximum amount less than 1 million. Study further explained that women entrepreneurs in SMEs can provide job opportunities to other women and commonly a business owned by women at small scale has 15 employees in which 8 can be women and 7 should be men. Study found that women entrepreneur usually faced social class issues and there is discrimination in social class status that why women economic potential not properly utilized. Study suggested that there must be institutional support for women entrepreneurs; society must understand the goals of women for business ownership and government should also support small business by women entrepreneur so that women can play their role in development of Pakistan. Roomi & Parrott, (2008) elaborated that encouraging and supporting the women entrepreneur can empower women and make able them for playing their efficient role in society and contributing in economic growth. Developing country like Pakistan, women are not able to get equal opportunities as men, most of the area of Pakistan has deep rooted social and cultural discriminations and women have to follow their traditions. Pakistan still not fully utilized its women's economic potential, women entrepreneurs are still suffering with

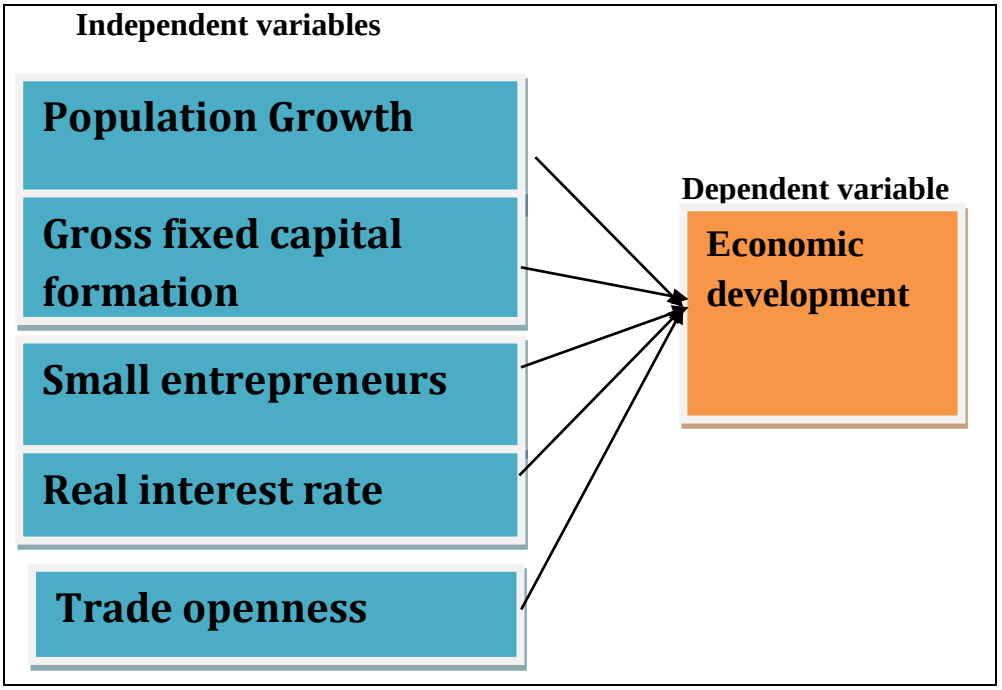
lack of capital, lack of information and technology, lack of training and skills and are facing the traditional attitude of male dominancy society. Niethammer, et al (2007) investigated about the women entrepreneurs and their access to finance in Pakistan. Study explained that women are playing an important role in economic growth of Pakistan, in spite of increasing women presence in SMEs, women still facing the issue of finance shortage. Study further explained that shortage of finance is a major constraint in growth of SMEs in Pakistan. A few women only owned a business in Pakistan but recent trend of Pakistan shows that women are interested to do some business for supporting their family and country. In Pakistan gender bias is also a major obstacle in women entrepreneurship. Study highlighted the advantages of more and easy access to finance for women, study explained more finance for women entrepreneurs in SMEs will generate more opportunities of job for women. According to the findings of the study, the Pakistani government should work to empower women and implement measures to make credit more readily available. Goheer,(2003) investigated about the women entrepreneurs in Pakistan and how can increase their bargaining power as supplier. Women in Pakistan are facing mostly gender related issues, 28% issues are related to market and 16% issue is related to government. Study argued that there is a complex business environment in Pakistan for women entrepreneur; there are two groups of factors which can influence of the business one of the socio-cultural and religious element and second one is constitutional and legal factors. The researcher focused the specific area for getting information as like women must be in some business activities, they should be in some outdoor activities, and business which women operating there must be at least five employees. Study described about the barriers and constraints which women

entrepreneur faced during starting up their business. Education about how to run the business and entrepreneurial activities will also contribute to the development of this sector and finally, role of Small entrepreneurs in economic development, they are getting access to finance and adopting new technology would also foster the development of SMEs. What kind of problems they are facing as small business owners?

3.Theoretical Framework

For a business success there is need to carry out its all departments because efforts of a business owner can affect the success of a business. In recent times research on small firms is getting importance, there are many previous studies available on the growth pattern of small firms and its determinants. Some previous studies explained that the small entrepreneurs can contribute in GDP and employment generations in a country. Theory of change: emphasizes that small and medium-sized businesses (SMEs) constitute the backbone of the economy, contributing significantly to GDP and employing a sizable fraction of the labor force. There's also evidence to suggest that early-stage small and medium-sized businesses can act as engines of economic growth, resulting in things like higher GDP, new jobs, and product innovation. Schumpeter (1957) theory of Innovation: confirms the findings of the preceding study and elucidates the case of a capitalist economy in stable equilibrium. Entrepreneurs, he contended, disrupt the economy's fixed circular flow through innovations that propels the economy to a new level of development. Entrepreneurial innovations are crucial in a country's fast economic development.

Figure 1: Conceptual model



According to Report of Asian Development Bank, 2017, SMEs play an important role in Pakistan's growth and development. The importance of SMEs in creating jobs as well as maintaining a fair distribution of wealth is recognized. According to State Bank of Pakistan Report,2016, SMEs are critical to the country's social and economic development. SMEs can create jobs, reduce poverty, accelerate growth, close the income gap, and create backward and forward links.

4.Methodology

4.1 Nature of Study

The nature of this study is descriptive and quantitative because it describes the role and importance of small entrepreneurs in economic development of

Pakistan. Research methodology is used to define all the sources, types of data and approaches used in the model. All the variables explanatory and explained are also defined and all things about which we are studying.

4.2 Research approach:

Our research is quantitative in nature so we will use quantitative data and methods.

4.3 Data Type & Source

A secondary source of data was used to compile this report, which consists of annual economic observations for Pakistan from 1970 to 2018. The study used many variables and data of small entrepreneurs was collected from World Bank Enterprise Survey (WBES), World Development Indicators (WDI), Asian Development Bank, Pakistan Economic Survey, State Bank of Pakistan.

4.4 Explanation of variables

The description of variables is stated as follows:

4.4.1 GDP

GDP is the marketplace or market value of all final products and services which are produced inside a nation's boundary for the duration of a specified period. With huge GDP, it works for as a complete record for the country's economic growth. GDP is usually calculated on yearly basis, but can also be calculated on a four times a year basis.

4.4.2 Population

Population is the quantity of living people who are living in a place. In this study we have taken the population as a proxy of labor force, a proportion of population who are deployed as economy's active workforce. A total of

57.2 million Pakistanis are employed, making it the ninth largest country in the world in terms of human resources available.

4.4.3 Trade Openness

The ratio of Trade to GDP, which means trading internationally and in results trade liberalization and enhance National income and growth. The indicator is obtained by export plus import of each year and then divided by two.

4.4.4 Gross fixed capital accumulation

An increase in assets through investment or profit is called capital accumulation; capital accumulation is a building block of a capitalist economy. The major purpose of capital accumulation is enhancing the value of an initial investment.

4.4.5 Small entrepreneurs

An individual who starts a small business and runs this business with his limited resources, making strategies for business and is responsible for all kind of risk and profit is called small entrepreneurs.

4.4.6 Real Interest Rate

It's called a real interest rate when it's been adjusted to take inflation out of the equation in order to imitate the actual cost. The real interest rate reflects the consumer's willingness to pay for goods and services now versus later. Formula of interest rate is given below: -

Real Interest Rate = Nominal Interest rate - Inflation

4.5 Specification of model

We have developed the following econometric model to analyze the data and check the impact of independent variables on dependent variable.

$$Y_t = f\ (IR, SE, OPP, POP, GFCF)$$

Where,

GDP = Gross Domestic Product Growth Rate

POP = Population

GFCF = Gross Fixed Capital formation

SE = Small Entrepreneurs

IR = Real Interest Rate

OPP = Trade Openness

4.6 Econometric model

We have used an ADLR model for estimation of our analysis. The specified long run and short run model is shown in the form of equations: -

$$\text{GDP} = \beta o + \beta_1 GFCF + \beta_2 IR + \beta_3 POP + \beta_4 SE + \beta_5 OPP$$

$$GDP_t = \beta_0 + \sum_{t=1}^{a} \lambda_1 GDP_{t-1} + \sum_{t=1}^{a} \lambda_2 GFCF_{t-1} + \sum_{t=1}^{a} \lambda_3 IR_{t-1} + \sum_{t=1}^{a} \lambda_4 POP_{t-1} + \sum_{t=1}^{a} \lambda_5 SE_{t-1} + \sum_{t=1}^{a} \lambda_6 OPP_{t-1} + \mu_t$$

$$GDP_t = \beta_0 + \sum_{t=1}^{a} \lambda_1 \Delta GDP_t + \sum_{t=1}^{a} \lambda_2 \Delta GFCF_{t-1} + \sum_{t=1}^{a} \lambda_3 \Delta IR_{t-1} + \sum_{t=1}^{a} \lambda_4 \Delta POP_{t-1} + \sum_{t=1}^{a} \lambda_5 \Delta SE_{t-1} + \sum_{t=1}^{a} \lambda_6 \Delta OPP_{t-1} + \mu_t$$

4.7 Hypotheses of study

The hypotheses of this study are listed below: -

H_0: There is no significant relationship between GDP and small enterprises

H_1: There is significant relationship between GDP and small enterprises.

H_0: There is no significant relationship between small enterprises and population growth rate.

H_1: There is significant relationship between small enterprises and Population

growth rate.

H_0: There is no strong relationship between small enterprises and gross fixed capital formation.

H_1: There is significant relationship between small enterprises and gross fixed capital formation.

H_0: There is no significant relationship between small enterprises and interest rate.

H_1: There is significant relation between small enterprises and interest rate.

H_0: There is no significant relationship between openness and small enterprises

H_1: There is significant relationship between openness and small enterprises.

4.8 Analytical Techniques

4.8.1 Descriptive statistics

4.8.2 Correlation analysis

4.8.3 Augmented Dickey Fuller (ADF) test

4.8.4 Correlation Analysis

4.8.5 Bound test

4.8.6 Auto Regressive Distributed lag (ARDL) Model

4.8.7 Error Correction Model (ECM).

5 Empirical Analysis

5.1 Descriptive Statistics

The results of descriptive statistics are given in Table 1.

Table 1: Results of Statistical analysis

	GDP	GFCF	IR	POP	OPP	SE
Mean	3.522345	21.19892	47.41745	26.87021	31.78278	0.217124
Median	3.423502	21.32329	45.83816	30.80745	30.32944	0.137778
Maximum	11.72315	25.52832	53.11044	39.69444	50.76785	0.772513
Minimum	-5.286028	17.94227	40.91238	1.108588	25.03097	0.016961
Std. Dev.	3.503406	1.543726	3.979580	11.10747	5.989981	0.201412
Skewness	-0.166927	0.437048	0.162827	-0.640015	1.586818	1.705828
Kurtosis	3.910834	4.044937	1.577313	2.146219	5.246824	4.711778
Jarque-Bera	1.529251	3.015899	3.461393	3.847055	24.57030	23.67557
Probability	0.465508	0.221363	0.177161	0.146091	0.000005	0.000007
Sum	137.3714	826.7579	1849.280	1047.938	1239.528	8.467829
Sum Sq. Dev.	466.4065	90.55742	601.8082	4688.283	1363.435	1.541536
Observations	47	47	47	47	47	47

Authors own calculation by E-views 9.5

Descriptive statistics are used to check variables' averages and standard deviations. It provides the average value for each variable over the various time periods, as well as the deviation from the average value. Stability of variables is shown by the standard deviation's minim value. GDP is 3.52 on average, with a standard deviation of 3.50; GFCF is 21.19 on average, with a standard deviation of 1.54; and IR is 0.21 on average, with a standard deviation of 0.20. Using this formula, the POP median is 31.78 and the standard deviation is

5.98. When it comes to OPP, the mean value is 26.87, while SE's mean value is 47.41, and the standard deviation is 11.10 With respect to their positive and negative skewness, our variables have been found by Bulmer (1979). After determining the skewness of the variables, the kurtosis, or central peak, is determined. Because of larger kurtosis values, all of the variables had sharper peaks.

5.2 Correlation Matrix

The Correlation analysis is shown in table 2.

Table .2 Results of correlation Matrix

	GDP	GFCF	SE	OPP	POP
GDP	1.000000				
GFCF	0.136294	1.000000			
SE	0.261459	0.374314	1.000000		
OPP	0.207442	0.211580	0.702550	1.000000	
POP	0.098568	0.560120	0.148110	0.523828	1.000000
IR	-0.126416	0.213451	-0.189983	- 0.274414	-0.116659

Authors own calculation by Views 9.5

It is possible to measure the strength of a link between two variables using correlation coefficients. When there is a large correlation between two variables, problems such as false regression and high r-squares arise. Table 5.2 shows values of correlation among variables. There should not be correlation greater than 80% as it creates issues in results. Below 80% association is normal. Gross fixed capital formation has 13%, small entrepreneurs has 26%, trade openness has 20%, population as a work force has 9% association with GDP while real interest rate has negatively associated with GDP at the rate of -12%. All the variables are normally associated with one another as we can see in the above table.

5.3 ADF Unit Root Tests

The stationarity of the variables is tested using the co integration unit root test technique before we attempt to estimate our model. The results of ADF test are given in Table 3

Table 3: Results of ADF test

	Level		1st Difference		
Variables	**Intercept**	**Intercept & Trend**	**Intercept**	**Intercept & Trend**	**Conclusion**
GDP	-3.5070 0.1031	-4.0903 0.1125	-8.7042 0.0000	-9.1018 0.0000	I(1)
GFCF	-1.0120 0.1031	-1.1015 0.0780	-6.6873 0.0000	-4.2011 0.0000	I(1)
SE	-6.0120 0.0000	-6.7120 0.0000	-7.1280 0.00000	-4.1009 0.0000	I(0)
IR	-1.3202 0.2017	-1.5015 0.2103	-6.1065 0.0000	-7.1107 0.0000	I(1)
POP	-1.7325 0.0701	-2.1023 0.2103	-4.7180 0.0000	-8.8086 0.0000	I(1)
OPP	-2.3016 0.0301	-7.0045 0.0000	-4.6108 0.0107	-7.4008 0.0001	I(0)

Authors own calculation by Eviews 9.5

Table 3 provides information about Unit root test results. Checking whether or not variables are stationary requires the application of the augment Dickey Fuller test. When a variable is said to be stationary, it signifies that its mean and standard deviation are both equal to 0. Results show that GDP is stationary at the first difference that includes intercept and trend since the probability value of the ADF test is less than 5% of the level of significance. As the ADF test probability value is less than 5%, the variable GFCF is similarly stationary at the initial difference. The variables IR and POP are also stationary because their ADF probability values are smaller than the level of

significance at the first difference. While SE and OPP both variables have a p-value 0.00, which is less than the level of significance, they are moving in opposite directions. Thus, the variables are stationers at difference level, so we can use ARDL approach for analysis.

5.4 Bounds test

Before applying the econometric ARDL technique for our models estimation first we will check that the long run relationship is exists or not, for this purpose we apply Bounds test results are shown in Table 4.

Table 4: Results of Bound Test

Test Statistics	Value	K
F-statistics	58.722	4
Critical Value Bounds		
Significance	I (0)	I (1)
10%	2.2	3.09
5%	2.56	3.49
2.5%	2.88	3.87
1%	3.29	4.37

Source: Author's own calculation with usage of Eview-9.5

The expressions

$$H_0 : \beta = 0$$

(Null hypothesis: There is no significant relationship between variables in the long run.

$$H_1 : \beta \neq 0$$

(Alternative hypothesis): There is significant relationship between variables in the long run.

Table .4 shows F-statistic (Wald test) to test the hypothesis. Two values are shown that reflect stationarity among variables. We have to see whether variables are stationers at difference level or at the same level. If they are stationers at different levels, then we can use ARDL Model otherwise we have to use OLS method. The null hypothesis (Ho) is rejected if computed F-statistics exceeds the upper critical value. It shows the existence of long run relationship. The variables in the ARDL model are I (0), while the second set assumes that all the variables in the ARDL model are I(1), while the third set assumes that all the variables are I. (1). H0 is rejected if the computed F-statistic exceeds the upper critical value. (There is a long-term relationship here), We will reject null hypothesis and accept alternate hypothesis. If F-statistics is less that bound critical value it shows, there is no long run relationship between variables then we will accept null hypothesis.

5.5 ARDL Approach

The results of ARDL model for long run relationship between variables are given Table 5.

Table 5: Results of ARDL Long run Model

Dependent Variable : GDP				
Variables	Coefficient	Std.Error	t-Statistic	Prob.
GFCF	0.0687967	110.76310	4.577357	0.0006
IR	-0.012546	88.909540	-5.615718	0.0012
SE	0.4770980	0.045616	10.37184	0.0000
OPP	0.8099070	11.70708	3.827877	0.0314
POP	0.2346579	65.60809	4.679809	0.0015
C	0.5070978	5.737890	2.621594	0.0089

Source: Author's own collection with usage of E-views 9.5

Table 5 shows a significant and positive association between GDP and small business owners of small enterprises. It also shows that as the number of small entrepreneurs grows, the GDP of the country will increase. If the number of small business owners grows by one unit, then GDP of the country will likely to improve by 47%. These results are consistent with the study of (Dogan, 2016). Our results show that Pakistan's GDP will increase by 6% if the GFCF is increased by one unit. These results are consistent with the results of Beckman (2013) It means that expansion in GFCF will expedite the process of GDP growth. Our findings also reveal a positive and highly significant link between GDP and population growth rate (which is used as a proxy for the labor force). These results are supported with the findings of Hasen et al, (2005). Pakistan's economic development will improve by 23% if the labor force/population grows is increased by one unit. Our findings highlight a

positive and significant link between trade openness and GDP. These results are also matched with the results of Johnson, (2001). Pakistan's economic development will increase by 80% if trade openness is increased by just one unit. It's for this reason that freer trade benefits the economies of emerging countries. People in developing countries like Pakistan have low per capita income, and markets tend to be small. Economic liberalism opens the door for low-cost producers to increase their output considerably beyond what is needed in the domestic market. Trade expansion will raise production and the GDP growth rate. Our findings reveal a negative and extremely significant relationship between interest rate and GDP. These results are consistent with the results of Johnson, (2001). If the interest rate is raised by just one unit, Pakistan's economic growth will be reduced by one percent. If interest rates rise, small business owners will have less access to capital, resulting in lower investment. As a result, GDP will be lower.

5.6 Error Correction Model

The short run results of the ECM are given in Table 6.

Table 6: Results of Error Correction Model

Variables	Coefficient	Std. Error	t-Statistic	Prob.
Coint Eq(-1)	-0.813519	0.026540	-30.65219	0.0001

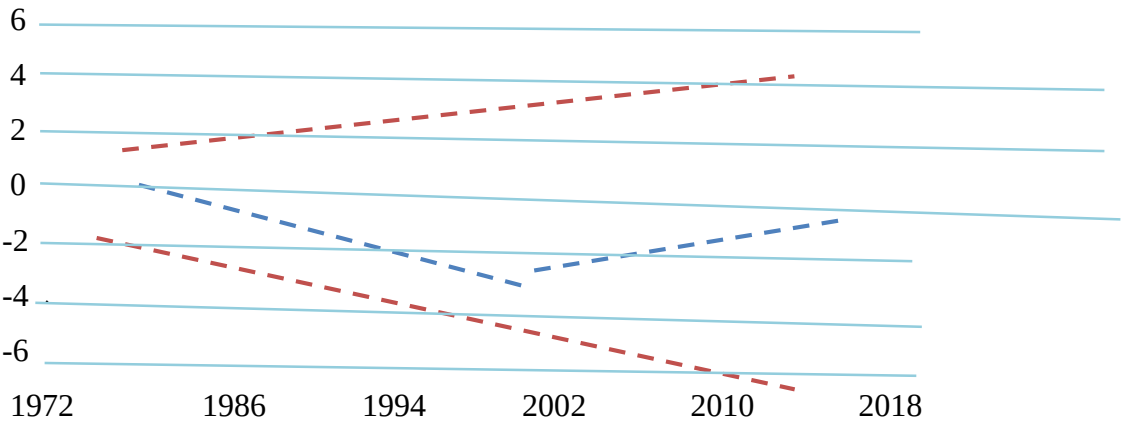
The short-term relationship are shown in Table 6.. Adjustment speed is described by Coint-Eq (-1). In other words, it demonstrates how fast or slowly variables approach their equilibrium level. At a 1% level, the error correction term coefficient (–0.813) is significant. The error correction term's highly

significant and negative sign supports the presence of a long-term link among the variables.

5.7 Stability test

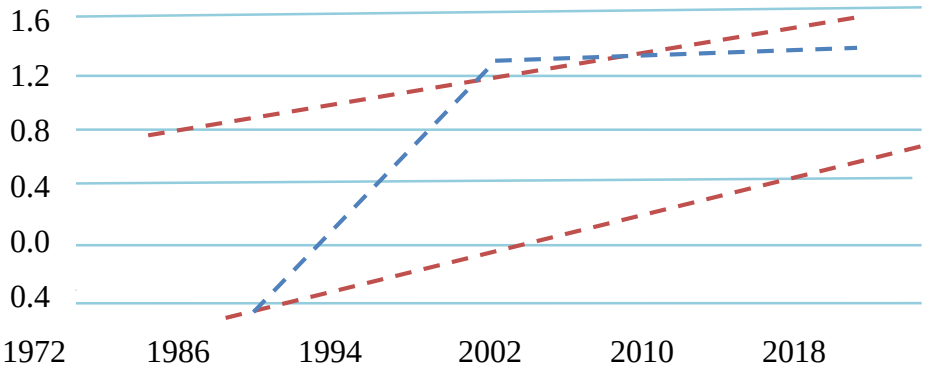
With the error correction model's cumulative sum of residuals (CUSUM) and cumulative squares of residuals (CUSUMSQ) are checked stability of the model introduced by Brown et al., we assessed the stability of the selected ARDL (1975). Figures .2 and .3 exhibit CUSUM and CUSUMSQ show stability of the model during study period; To sum up, the model is fundamentally sound because both plots remain within critical boundaries at a 5% level of significance.

Figure 2: Results of CUSUM test



The straight lines represent the critical bounds at 5 % significant level

Figure 3: Results of CUSUMSQ



The straight lines show the limits of significance at a 5% level. Our model is structurally stable, and long-term relationships exist because both plots are within 5% significance boundaries.

6.Conclusions

Except for the real interest rate, all variables are found to be positively associated with GDP. Small business investment has a significant impact on economic growth, as measured by the investment made by small business owners in their companies. This suggests that as investment by small business owner's increases, so does production, resulting in more jobs being created as well as higher per capita income and a reduction in poverty. As a result, an increase in the number of entrepreneurs leads to an increase in the country's GDP. Population growth rate (as a proxy for labor), gross fixed capital formation, real interest rate, and trade openness are all utilized as auxiliary variables to explain the data. Empirical evidence shows that increasing the country's GDP through fixed capital formation is long-lasting effect. It shows that as the country's capital formation rises GDP will also rise. A positive relation exists between population growth rate (a proxy for labor force) and GDP, suggesting that as small business investment grows, so does the number

of workers employed by such businesses. Furthermore, the findings also demonstrate a positive and highly significant link between trade openness and GDP as trade liberalization and openness enhance greater exports of goods and services. Our results are consistent with the findings of Johnson, (2001). But the results of interest rate and GDP is negative and highly significant and our results support the finding of J smart, (2016). Its mean that, when interest rate is high small entrepreneur will be discouraged due to high inflation and is hesitated to invest more in the business.

7. Policy implications

In the light of above discussion, we would like to make the policy implications and of this study are the followings: -

- It is important to encourage the expansion of small and medium-sized businesses at national and international level through tax rebates and fiscal incentives.
- Special fiscal incentives should be given to small entrepreneurs as an increase in the number of small business firms can boost productivity and competitiveness for a broader-based economic recovery and widen employment.
- Global value chains (GVCs) link companies across countries through international trade, allowing those with limited resources and capabilities to take specific tasks or processes within a GVC rather than having to participate in the entire production system. This is an effective way for SMEs to internationalize their business activities.
- Our study results highlight the fact that acquiring foreign investment and enhancing technological progress are critical for SMEs. The policy initiatives

should be taken to encourage foreign direct investment in small business sector.

● The Government should also help small enterprises in improving on-job and off-job training to enhance their employees' skill, expanding the availability of financial assistance, developing know how about international markets and creating an atmosphere that encourages trade and foreign direct investment in small enterprises.

● Female entrepreneurs should be provided entrepreneurial training and financial support, so that they can stay in business and viably contribute in expansion of the economy.

8. Contribute of this study

This study contributes in the literature on the role of small medium enterprises and development of entrepreneurship in many ways. It highlights the fact that small enterprises play a vital role in job creation and innovation. This is the reason all countries particularly developing countries encourage small business firms. It also reveals the importance of entrepreneurship in the countries like Pakistan which have small industrial base and narrow market. The entrepreneurs have low resources so they cannot launch big ventures. They prefer to start business at small scale in order to avoid heavy losses and expand their business gradually according to demand of their products and services. This study emphasized to increase the role of financial institutions in development of entrepreneurship and small businesses by providing loans at low interest rate. In this way entrepreneurship will grow rapidly in Pakistan. The results of this study also pinpoints how small businesses and entrepreneurship help reduce unemployment and create jobs for youth. This is very important for economic development socio-economic cohesion. This

study is restricted to Pakistan but its findings can be generalized and used by policy makers of other developing countries because the nature of business problems are similar among them. Thus, the results of this study are robust and significant contribution in the literature on small and medium enterprises theoretically and empirically.

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Contribution of Authors

Both authors jointly carried out this research study and collaborated each other. The author 1 collected data, conducted its statistical analysis. She prepared initial draft of manuscript. The Author 2 helped Author 1 in selected of title of research, guided in statistical analysis and formatted final draft of manuscript. Both authors carefully read final draft of manuscript and find it fit for publishing. Both authors fully followed ethical values during the course of this research work.

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